

REPORT OF THE DIRECTORS

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31st March, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly-controlled entities are set out in notes 14, 15 and 16 to the financial statements, respectively.

RESULTS AND APPROPRIATIONS

Details of the Group's results are set out in the consolidated income statement on page 22.

The directors do not recommend the payment of any dividends for the year.

FIVE YEAR FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the past five financial years is set out on pages 75 and 76.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group has greatly improved its liquidity position through disposals of its investments in Shun Cheong and Management Investment & Technology (Holdings) Limited ("MIT") in April, 2000 and Kin Wing in June, 2000. The disposals generated a net cash inflow of approximately HK\$260 million and enhanced the working capital position of the Group from a deficit of HK\$86 million a year ago to a surplus of HK\$201 million as at 31st March, 2001.

As at 31st March, 2001, total interest-bearing debts of the Group amounted to HK\$166 million. Approximately 96% of the debts were repayable within one year. After deducting the cash and bank balances of HK\$104 million at year end, the net interest-bearing debts of the Group was HK\$62 million. The gearing ratio, as measured by the net borrowings over the shareholders' funds, was 5.5% as at 31st March, 2001.

Funding and treasury policy

The Group adopts a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and United States dollars and bear interest at floating rates.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**Pledge of assets**

Certain inventories, trade debts, intercompany debts due from an associate and properties having an aggregate book value of HK\$144 million as at 31st March, 2001 were pledged to secure borrowings of the Group. The Company's secured bank borrowings were secured by shares in certain associates.

Contingent liabilities

As at 31st March, 2001, the Group was contingently liable for HK\$7 million in respect of bills discounted with recourse. Details of this and other contingent liabilities of the associates of the Group are set out in note 36 to the financial statements.

Employees and remuneration policies

The Group, not including its associates and jointly-controlled entities, employs approximately 4,600 people in Hong Kong, in other parts of the People's Republic of China and overseas. Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical cover, provident fund, personal accident insurance and educational subsidies to all eligible staff.

SHARE CAPITAL AND WARRANTS

Details of the movements in the issued share capital and warrants of the Company during the year are set out in note 28 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$10 million for the purposes of business expansion. Details of this and other movements in the property, plant and equipment of the Group and of the Company during the year are set out in note 11 to the financial statements.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year are set out in note 12 to the financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2001 are set out in note 14 to the financial statements.

ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES

Details of the Group's principal associates and jointly-controlled entities at 31st March, 2001 are set out in notes 15 and 16 to the financial statements, respectively.

DIRECTORS

The directors of the Company during the year and up to the date of this annual report were:

James Sai-Wing Wong	
Madeline May-Lung Wong	
William Chung-Yue Fan	
Herman Man-Hei Fung	
Roderick Sue-Cheun Wong	(appointed on 10th August, 2000 and thereafter ceased as alternate director to Madeline May-Lung Wong)
Frankie Yick-Cheung Lee	(appointed on 15th December, 2000)
John William Crawford*	
Clement Kwok-Hung Young*	

* *Independent non-executive director*

In accordance with Article 95 of the Company's Articles of Association, Frankie Yick-Cheung Lee retires and, being eligible, offers himself for re-election.

In accordance with Article 104 of the Company's Articles of Association, William Chung-Yue Fan and John William Crawford retire by rotation and, being eligible, offer themselves for re-election.

No director has a service contract with the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

1. During the year, the Group had the following transactions with Hon Kwok, an associate of the Company:
 - (a) The Company received management fees amounting to HK\$6,000,000 from Hon Kwok for the provision of administration and general services for the year ended 31st March, 2001. Subsequent to the year end, the Company entered into an arrangement with Hon Kwok pursuant to which the management fees payable by Hon Kwok commencing from 1st April, 2001 onwards are waived until further notice.
 - (b) Certain subsidiaries of Kin Wing acted as contractors for property development projects undertaken by subsidiaries of Hon Kwok. The amount of such contract work performed while Kin Wing was a subsidiary of the Group amounting to approximately HK\$22,535,000.
 - (c) On 21st March, 2001, the Company entered into a conditional subscription agreement to subscribe for a principal sum of HK\$141 million of the 10% convertible guaranteed bonds to be issued by a wholly-owned subsidiary of Hon Kwok.

James Sai-Wing Wong, Madeline May-Lung Wong, William Chung-Yue Fan and Herman Man-Hei Fung are directors of, and have beneficial interests in, Hon Kwok. Roderick Sue-Cheun Wong is also a director of Hon Kwok.

2. During the year, the Group had the following transactions with Chinney Alliance, an associate of the Company:
 - (a) The Company received management fees amounting to HK\$2,500,000 from Chinney Alliance for the provision of administration and general services for the year ended 31st March, 2001.
 - (b) The Company disposed of its investments in Shun Cheong and MIT to Chinney Alliance for a cash consideration of HK\$111.8 million. The transaction was completed on 20th April, 2000.

James Sai-Wing Wong and Herman Man-Hei Fung are directors of, and have beneficial interests in, Chinney Alliance. Madeline May-Lung Wong has a beneficial interest in Chinney Alliance.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE (Continued)

3. On 26th March, 2001, New Luck Assets Limited (“New Luck”), a 86.05% owned subsidiary of the Company, entered into a conditional sale and purchase agreement with ehealthcareasia Limited pursuant to which New Luck agreed to acquire a 50% interest in Kin Wing BVI for a cash consideration of HK\$88 million.

John William Crawford is a non-executive director of and has a beneficial interest in ehealthcareasia Limited.

Save as disclosed above, no contracts of significance to which the Company, its holding companies or any of its subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2001, the interests of directors in the securities of the Company and its associated corporations as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”) were as follows:

The Company

Name of director	<i>Note</i>	Nature of interest	Number of shares held
James Sai-Wing Wong	1	Corporate	296,919,324
Madeline May-Lung Wong	1	Corporate	296,919,324
William Chung-Yue Fan		Personal	2,958,285
Herman Man-Hei Fung		Personal	10,040,000

DIRECTORS' INTERESTS IN SECURITIES (Continued)**Associated corporations**

Name of director	Notes	Name of associated corporations	Nature of interests	Number/ face value of securities held	Type of securities
James Sai-Wing Wong	2	Hon Kwok	Corporate	632,284,758	Ordinary shares
	2	Chinney Alliance	Corporate	797,447,982	Ordinary shares
	3	Hon Kwok Land Capital Limited	Corporate	US\$6,925,000	5.30% convertible guaranteed bonds ("B Bonds")
	4	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	10% convertible guaranteed bonds ("C Bonds")
Madeline May-Lung Wong	2	Hon Kwok	Corporate	632,284,758	Ordinary shares
	2	Chinney Alliance	Corporate	797,447,982	Ordinary shares
	3	Hon Kwok Land Capital Limited	Corporate	US\$6,925,000	B Bonds
	4	Hon Kwok Land Treasury II Limited	Corporate	HK\$141,000,000	C Bonds
William Chung-Yue Fan		Hon Kwok	Personal	7,085	Ordinary shares
Herman Man-Hei Fung		Hon Kwok	Family	14,171	Ordinary shares
	5	Hon Kwok	Personal	12,000,000	Share options
	6	Chinney Alliance	Personal	8,000,000	Share options

Notes:

1. *These shares are beneficially held by Chinney Holdings. More than one-third of the equity capital of Chinney Holdings is owned by Lucky Year, of which James Sai-Wing Wong and Madeline May-Lung Wong are directors as well as shareholders.*

DIRECTORS' INTERESTS IN SECURITIES (Continued)

Notes (Continued):

2. *James Sai-Wing Wong and Madeline May-Lung Wong are deemed to have beneficial interests in these shares held by the Company or its wholly-owned subsidiary by virtue of their respective interest in the equity capital of Lucky Year as described in note 1.*
3. *James Sai-Wing Wong and Madeline May-Lung Wong are deemed to have beneficial interests in US\$1,300,000 of the B Bonds held by a wholly-owned subsidiary of Chinney Holdings and US\$5,625,000 of the B Bonds held by the Company by virtue of their respective interest in the equity capital of Lucky Year as described in note 1.*
4. *On 21st March, 2001, the Company subscribed for a principal sum of HK\$141 million of the C Bonds. By virtue of the SDI Ordinance and the directors' interests in the equity capital of Lucky Year as described in note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to have beneficial interests in these bonds as at 31st March, 2001. The bonds were issued and allotted to the Company on 18th April, 2001 upon fulfilment of all conditions pertaining to the issue of the C Bonds after year end.*
5. *These share options can be exercised up to 15th March, 2003 at an exercise price of HK\$0.70 per share, subject to adjustment. During the year, no share options were exercised.*
6. *These share options can be exercised up to 12th July, 2009 at an exercise price of HK\$0.07 per share, subject to adjustment. During the year, no share options were exercised.*

Save as disclosed above and other than certain nominee shares in subsidiaries held by James Sai-Wing Wong in trust for the Group, none of the directors or their associates had any beneficial interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance at 31st March, 2001.

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2001, the following shareholders had an interest of 10% or more in the share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held
Chinney Holdings	296,919,324
Lucky Year	296,919,324
Madeline May-Lung Wong	296,919,324
James Sai-Wing Wong	296,919,324

James Sai-Wing Wong, Madeline May-Lung Wong, Lucky Year and Chinney Holdings are deemed to be interested in the same parcel of shares by virtue of Section 8(2) of the SDI Ordinance.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Pursuant to a share option scheme of Kin Wing which ceased to be a subsidiary of the Company in June, 2000, James Sai-Wing Wong and Herman Man-Hei Fung may be granted options to subscribe for shares in Kin Wing. No options have been granted during the year.

Save as disclosed above:

- (i) None of the directors, their spouses or children under the age of 18 had any rights to subscribe for securities of the Company or had exercised any such rights; and
- (ii) At no time during the year was the Company, its holding companies or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

Both the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers for the year were less than 30% of the Group's total turnover and purchases, respectively.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 40 to the financial statements.

DONATIONS

During the year, the Group made donations amounting to approximately HK\$9,000.

AUDIT COMMITTEE

The Company has established an audit committee comprising William Chung-Yue Fan, John William Crawford and Clement Kwok-Hung Young. In establishing the terms of reference for the committee, the directors have made reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December, 1997.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied throughout the year ended 31st March, 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange except that the non-executive directors are not appointed for specific terms as they are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years. A resolution will be submitted at the Annual General Meeting of the Company to re-appoint them.

On behalf of the Board
Herman Man-Hei Fung
Managing Director

Hong Kong SAR, 17th July, 2001